Sharekhan
by BNP PARIBAS

Powered by the Sharekhan 3R Research Philosophy

Jubilant Foodworks Limited

Eyeing a larger pie post turnaround Q3

Consumer Discretionary	Sharekhan code: JUBLFOOD	Result Update

Stock Update

3R MATRIX	+	=	-
Right Sector (RS)	✓		
Right Quality (RQ)	✓		
Right Valuation (RV)		✓	

\+ Positive = Neutral - Negative

What has changed in 3R MATRIX

	Old		New
RS		⟷	
RQ		⟷	
RV		⟷	

Reco/View	Change
Reco: **Buy**	⟷
CMP: **Rs. 2,644**	
Price Target: **Rs. 3,145**	⟷

↑ Upgrade ⟷ Maintain ↓ Downgrade

Company details

Market cap:	Rs. 34,893 cr
52-week high/low:	Rs. 2973/1142
NSE volume: (No of shares)	9.3 lakh
BSE code:	533155
NSE code:	JUBLFOOD
Free float: (No of shares)	7.7 cr

Shareholding (%)

Promoters	41.9
FII	39.7
DII	12.8
Others	5.6

Price chart

Price performance

(%)	1m	3m	6m	12m
Absolute	-5.3	22.6	52.1	35.2
Relative to Sensex	-9.6	-2.2	16.0	9.1

Sharekhan Research, Bloomberg

Summary

- Jubilant Foodworks Limited's (JFL) revenue stood flat at Rs. 1,057.2 crore; Delivery and takeaway revenue grew by ~19% and 64%, respectively.
- Benign input prices, delivery charges of Rs. 30 per order, and wastage saving led to 340 bps improvement in gross margin to ~78%. Higher ticket price per customer and improving volumes would help gross margin to remain high despite inflation in input prices.
- JFL added 57 new stores (including 50 Domino's store) in Q3 and would maintain the run rate of adding around 50 stores every quarter, considering strong growth prospects in the QSR space.
- With business recovering to 100%, management is focusing on improving revenue growth trajectory through strengths of its distribution model and varied offerings. We recommend Buy with a PT of Rs. 3,145.

Jubilant Foodworks Limited's (JFL) business recovered to 100%. The company reported revenue of Rs. 1,057.2 crore. Same store sales marginally declined by 1.7% (like-to-like same store sales growth [SSSG] stood at 1.4%). SSSG stood at 4.2% in November, but it declined by 2.9% in December, affected by localised lockdown. In January 2021, SSSG stood at 3.4% (like-to-like SSSG stood at 6.6%). Delivery channel and takeaway channel registered growth of 18.5% and 64.3%, respectively, during the quarter. Dine-in revenue recovered to 42% in Q3 (recovered to 57% in January 2021). Gross margin improved by 340 bps y-o-y to 78% mainly on account of benign input prices, lesser discounts by food aggregators, lower wastages, and Rs. 30 delivery charges introduced during the quarter. Operating profit margin (OPM) expanded by 243 bps y-o-y to 26.4%, in line with our expectation of around 26%. The company added 57 new stores in Q3 (including 50 Domino's stores, 2 Dunkin Donuts stores, 5 new stores of Ekdum! and Hong's Kitchen). The launch of 'Drive-n-Pick' initiative is receiving encouraging response and would fuel growth of the take-away model. Ventures such as Hong's Kitchen and Ekdum! are getting good response and fundamentals of both the businesses will be similar to Domino's model with similar OPM. Increased trend of digital ordering (increased frequency of orders from existing customers and new customers ordering through the app), strengths of delivery model, recovery in dinning part of the business, and new store additions (expect around 40-50 stores per quarter) would help the company improve its revenue trajectory in the coming quarters. Higher realisation per order, introduction of delivery charges of Rs. 30 per order, lower wastages, and shifting to variable manpower model would help margins to remain high despite inflating input prices. As on December 31, 2020, liquid funds with the company stood at Rs. 951.7 crore, improving from Rs. 827.8 crore in September 2020.

Key positives

- India business recovered to 100% in Q3 and grew by 6% in January 2021, with growth delivery and takeaway staying upwards of 15% and 60%.
- Online ordering to delivery sales stood at 98.2%; downloads of mobile ordering app stood at 51.2 million, the highest in the past few quarters.
- Encouraging response to new ventures such as Hong's Kitchen and Ekdum!; large focus on adding few stores in Delhi NCR region.

Key negatives

- Dine-in store sales recovered to just 57% of pre-COVID level in January 2021.

Our Call

View - Recommend Buy with a PT of Rs. 3,145: We have broadly maintained our earnings estimates for FY2022/FY2023. With business recovering to 100% of pre-COVID level in Q3, the company has enhanced its focus on improving its revenue growth trajectory through strengths of its delivery model, varied product portfolio, and extensive store addition. The company can leverage its delivery and store expertise in new ventures such as Chinese cuisines (Hong's Kitchen) and Indian ethnic food (Ekdum! Biryani) to capture a large pie of the domestic restaurant space in the coming years. The stock is currently trading at 49.3x its FY2023E earnings (and 24.4x its FY2023 EV/EBIDTA). We recommend Buy on the stock with a PT of Rs. 3,145.

Key Risks

Any significant decline in delivery/takeaway sales due to enhanced competition or localise lockdown due to increased cases in the coming quarters would act as a key risk to our earnings estimates in the near to medium term.

Valuation (Standalone) Rs cr

Particulars	FY19	FY20	FY21E	FY22E	FY23E
Revenue	3,531	3,886	3,203	4,396	5,199
OPM (%)	17.2	22.6	23.1	25.7	26.9
Adjusted PAT	331	331	222	509	708
Adjusted EPS (Rs.)	25.0	25.1	16.8	38.6	53.7
P/E (x)	105.6	105.5	157.1	68.6	49.3
P/B (x)	26.4	29.5	30.5	22.2	15.9
EV/EBIDTA (x)	56.2	40.9	48.3	31.0	24.4
RoNW (%)	27.9	26.4	19.1	37.5	37.5
RoCE (%)	40.6	28.9	16.5	29.3	33.4

Source: Company; Sharekhan estimates

Revenue recovered to 100.3%; SSS marginally lower by 2.0%: Standalone revenue recovered to 100% to Rs. 1,057.2 crore in Q3FY2021 from Rs. 1,059.6 crore in Q3FY2020, much better sequentially from Rs. 805.5 crore in Q2FY2021. SSS declined by 1.7% during the quarter versus 20% decline in Q2FY2021 (seen improvement of 1.4%, excluding the temporary-closed restaurants due to COVID-19 from the base quarter). SSS for split restaurants (no new restaurants in the vicinity of old restaurants) declined by 0.2% for the quarter. Delivery sales registered 18.5% growth and takeaway sales grew strongly by 64.3% in Q3FY2021. Soft input prices, delivery charges, and discount rationalisation helped gross margin to expand by 340 bps to 78.3%. This, along with operating efficiencies, drove up OPM by 243 bps to 26.4%. Lower rent cost led to operating profit of Rs. 278.6 crore, up 9.9% y-o-y. Profit before tax grew by 19.5% y-o-y to Rs. 166.1 crore. Adjusted profit grew by 9.3% y-o-y to Rs. 125.1 crore in Q3FY2021 from Rs. 114.5 crore in Q3FY2020.

Online sales continued to gain strong traction: Delivery/takeaway channels boosted revenue: Digital revenue of Domino's grew strongly and average online ordering (OLO) contribution to delivery sales went up to 98.2% in Q3FY2021 from 86.8% in Q3FY2020. Further, robust growth in mobile ordering (by 97.5% in Q3FY2021 as against 95% in Q3FY2020) helped increase online ordering in Q3FY2021, driven by higher number of downloads. The company entered the biryani segment with the launch of its new brand – Ekdum. Further, the company introduced 'The Unthinkable Pizza' - India's first plant protein-based product, which is 100% vegetarian, with the sensory properties of chicken. The company also introduced 'Domino's Drive-N-Pick' – allowing customers to pick up their orders without stepping out of their vehicle. JFL added 50 new Domino's stores in Q3FY2021, taking the total count to 1,314 stores across 285 cities. The company planned to open 110+ new Domino's stores in FY2021. The company opened two new Dunkin' Donuts stores and closed one store in Q3FY2021, taking the total store count to 27. For Hong's Kitchen and Ekdum, the company opened five new stores, taking the total to 10 stores.

International business recovering well: Domino's Sri Lanka revenue recovered to 82.5% with delivery recovering to 128% and takeaway recovering to 82.1%. The company launched two new pizzas – Sri Lankan Chicken Curry and Spicy Veg. Average OLO contribution to delivery sales (%) stands at 47% for Q3FY2021. The company opened one new stores during the quarter. The total number of stores now stand at 23. Domino's Bangladesh revenue recovered to 94.9%, with delivery recovering to 241.6% and takeaway recovering to 105.9%. Average OLO contribution to delivery sales (%) stands at 66% for Q3FY2021. The company has four stores in Bangladesh.

Key conference call takeaways

- JFL's dine-in business recovered to 56% in Q3FY2021. With receding scare of the virus and easing of restrictions, the dine-in business is expected to recover faster. With multiplexes allowed to operate at 100% occupancy, the company expects restaurants to be allowed to operate at 100% sitting in the coming months. JFL's value-for-money offering, access to stores from commercial operations/malls/residential complexes, and varied product portfolio will help to attract more customers at the dining model.
- Management has clarified that investment of Rs. 92 crore for 10.76% stake in Barbeque Nation will be value accretive for shareholders in the long run.
- New initiatives such as Hong's Kitchen and Ekdum! Biryani are expected to be the key growth drivers in near to medium. Together, they have 10 stores operating in Delhi NCR region. Biryani is the no. 1 ordered food product online, followed by Chinese cuisines. So, there is a large opportunity in both the segments. Once both the businesses attain certain scale, management expects them to deliver OPM similar to the core business's OPM.
- The company added 57 stores in various formats in Q3. Management endeavours to add another 50 stores in Q4FY2021. With strong growth opportunities in the Quick Service Restaurants (QSR) space, the company expects to add 40-50 stores per quarter.
- Ticket size per order has increased compared to pre-COVID levels mainly on account of orders from large groups, more ordering of combos, and higher orders of large-size pizzas.

Results (Standalone) Rs cr

Particulars	Q3FY21	Q3FY20	y-o-y (%)	Q2FY21	q-o-q (%)
Net Revenue	1057.2	1059.6	-0.2	805.5	31.2
Total expenditure	778.6	806.0	-3.4	590.8	31.8
Operating Profit	278.6	253.6	9.9	214.7	29.8
Other income	15.6	15.9	-2.2	10.8	44.8
Interest expense	40.5	42.6	-5.0	41.2	-1.8
Depreciation	87.6	88.0	-0.4	86.2	1.7
PBT	166.1	138.9	19.5	98.0	69.5
Tax	41.0	24.4	67.8	23.8	72.4
Adjusted PAT	125.1	114.5	9.3	74.2	68.5
Extraordinary item	0.0	-10.8	-	2.9	-
Reported PAT	125.1	103.7	20.6	77.1	62.2
EPS (Rs.)	9.5	8.7	9.3	5.6	68.5
			bps		**bps**
GPM (%)	78.3	74.9	340	78.8	-49
OPM (%)	26.4	23.9	243	26.7	-29

Source: Company; Sharekhan Research

Result (Consolidated) Rs cr

Particulars	Q3FY21	Q3FY20	y-o-y (%)	Q2FY21	q-o-q (%)
Net Revenue	1069.3	1071.4	-0.2	816.3	31.0
Total expenditure	789.3	816.9	-3.4	600.2	31.5
Operating Profit	280.0	254.4	10.0	216.1	29.5
PBT	165.1	137.3	20.3	100.7	64.0
Tax	41.2	35.5	16.2	24.9	65.6
Adjusted PAT	123.9	101.8	21.7	75.8	63.5
Extraordinary item			-	0.0	-
Reported PAT	123.9	101.8	21.7	75.8	63.5
EPS (Rs.)	9.4	7.7	21.7	5.7	63.5
			bps		**bps**
GPM (%)	78.2	74.9	334	78.7	-50
OPM (%)	26.2	23.7	243	26.5	-29

Source: Company; Sharekhan Research

Recovery in key business parameters

Domino's Sales Recovery Trends	Q2FY2021	Oct 2020	Nov 2020	Dec 2020	Q3FY2021	Jan 2021
System Sales Recovery vs. Last Year	82.30%	96.20%	106%	99.50%	100.30%	106.00%
Like-for-Like (LFL) Sales Recovery	86.90%	97.40%	107.50%	99.90%	101.40%	106.60%

Source: Company; Sharekhan Research

Outlook and Valuation

■ Sector view - QSR market will be boosted by higher delivery/takeaway sales

The organised food service market in India is around Rs. 1,000 billion. QSR account for ~10% of the overall food service market in India. The Indian society is evolving with rising working population, nuclear/individual households, and more outdoor activities such as leisure trips and outings with friends, families, and colleagues. These factors are driving the frequency of eating out. However, in the post-pandemic era, trends in the food service industry are expected to shift towards online food ordering, increased share of delivery and takeaway mix, changed customer perceptions about product consumption and services, higher emphasis on hygiene and safety among businesses and customers alike, and an exponential rise in digitalisation owing to greater focus on contactless and safer transactions. Established and trusted brands that have always upheld safety and hygiene have top-of-the-mind awareness for customers who are making food purchasing decisions.

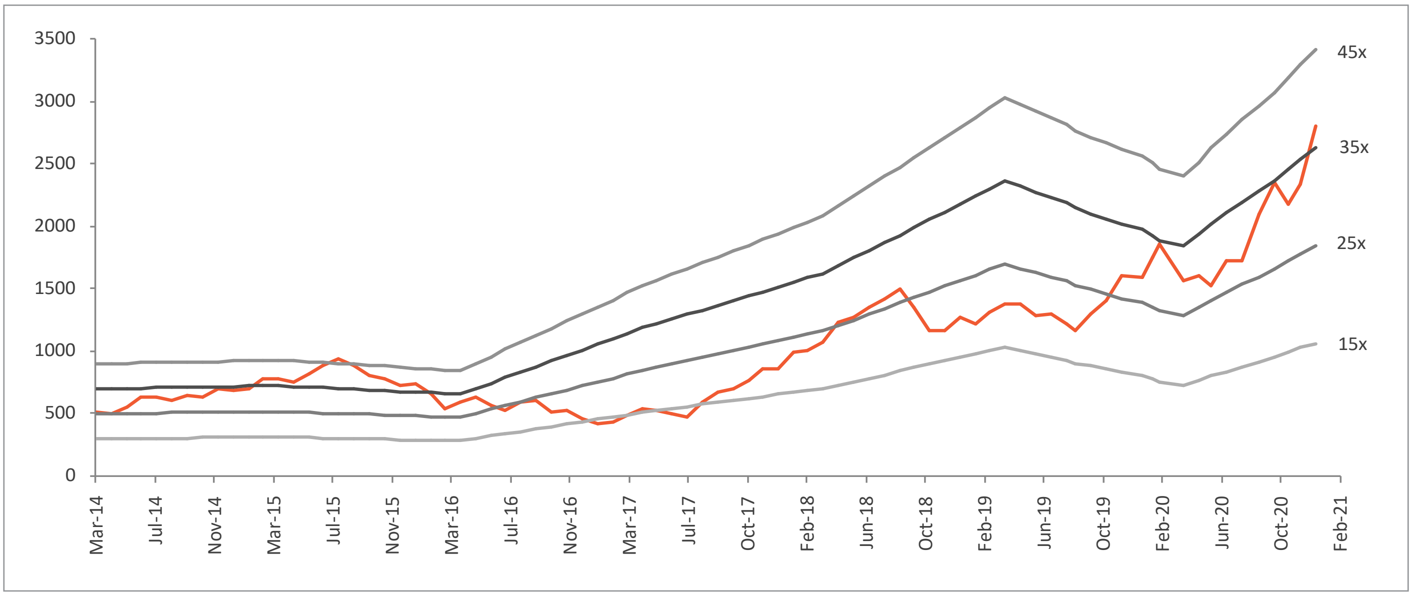
■ Company outlook - Revenue recovered to 100% in Q3; Growth trajectory to improve further

JFL posted strong recovery in Q3, with recovery reaching to 100.3% of pre-COVID levels with delivery and takeaway models gaining strong traction. Increased trend of digital ordering (increased frequency of orders from existing customers and new customers ordering through the app), strengths of the delivery model, recovery in dining part of the business, and new store additions (expect around 40-50 stores per quarter) would help the company to improve its revenue trajectory in the coming quarters. Higher realisation per order, introduction of delivery charges of Rs. 30 per order, lower wastages, and shifting to variable manpower model would help margins to remain high despite inflating input prices.

■ Valuation - Recommend Buy with a PT of Rs. 3,145

We have broadly maintained our earnings estimates for FY2022/FY2023. With business recovering to 100% of pre-COVID level in Q3, the company has enhanced its focus on improving its revenue growth trajectory through strengths of its delivery model, varied product portfolio, and extensive store addition. The company can leverage its delivery and store expertise in new ventures such as Chinese cuisines (Hong's Kitchen) and Indian ethnic food (Ekdum! Biryani) to capture a large pie of the domestic restaurant space in the coming years. The stock is currently trading at 49.3x its FY2023E earnings (and 24.4x its FY2023 EV/EBIDTA). We recommend Buy on the stock with a PT of Rs. 3,145.

One-year forward P/E (x) band



Source: Sharekhan Research

Peer Comparison

Particulars	P/E (x)			EV/EBIDTA (x)			RoCE (%)		
	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E
Westlife Development	-	87.8	53.5	88.5	22.3	17.8	-	6.8	11.0
Jubilant Foodworks	105.5	157.1	68.6	40.9	48.3	31.0	28.9	16.5	29.3

Source: Company, Sharekhan estimates

About company

JFL is one of India's largest food service companies. The company is part of the Jubilant Bhartia Group, India's most respected conglomerate operating in diverse business areas with a strong global presence. JFL currently operates Domino's Pizza and Dunkin Donuts brands in India. The company also operates Domino's Pizza through its subsidiaries in Sri Lanka, Nepal, and Bangladesh. Domino's Pizza is the largest pizza chain in India in terms of restaurant numbers, as well as the world's largest franchisee outside the US for Domino's Pizza brand. Dunkin Donuts is the world's leading baked goods and coffee chain. JFL's network comprises 1,354 Domino's Pizza restaurants, spanning across 288 cities, and 30 Dunkin Donuts restaurants across 10 cities. The company has entered into the Chinese cuisine segment with its first owned restaurant brand, Hong's Kitchen; the company has four Hong's Kitchen restaurants across two cities in India. The company has also forayed into the ready-to-cook segment with a range of sauces, gravies, and pastes under the newly launched brand, Chef Boss.

Investment theme

JFL has four strategic pillars: product and innovation, value for money, customer experience, and digital and technology to drive growth, efficiency, and productivity. The company has introduced the Every Day Value (EDV) offer to enhance its value-for-money proposition. With a revamped mobile app and website, the company has been increasing its OLO share, which is in line with its strategy of technology-driven growth. JFL has also entered into the Chinese cuisine market by launching its first-owned restaurant brand, Hong's Kitchen, recently. Expansion strategies along with robust SSSG, increasing number of stores, cost optimisation, and customer-satisfaction initiatives would be key growth drivers for JFL.

Key Risks

- **Slowdown in demand:** Any slowdown in the demand environment would impact revenue growth.
- **Increased raw-material costs:** A significant increase in key raw-material prices would impact profitability.
- **Increased competition:** Increased competition in the QSR category would act as a threat to revenue growth.

Additional Data

Key management personnel

Shyam S Bhartia	Chairman and Managing Director
Hari S Bhartia	Co-chairman
Pratik Pota	CEO & Whole Time Director
Prakash C Bisht	Chief Financial Officer
Mona Aggarwal	Company Secretary

Source: Company

Top 10 shareholders

Sr. No.	Holder Name	Holding (%)
1	Sands Capital Management	5.0
2	UTI Asset Management Co Ltd	2.6
3	JPMorgan Group	2.5
4	Kotak Mahindra Asset Management Co	2.3
5	Motilal Oswal Asset Management Co	2.2
6	Vanguard Group Inc	1.9
7	Arisaig Global Emerging MK	1.7
8	Hillhouse Capital Advisors Ltd	1.6
9	Dimensional Fund Advisors LP	1.4
10	Tata Asset Management Ltd	1.3

Source: Bloomberg **As on May 20, 2020*

Understanding the Sharekhan 3R Matrix

Right Sector	
Positive	Strong industry fundamentals (favorable demand-supply scenario, consistent industry growth), increasing investments, higher entry barrier, and favorable government policies
Neutral	Stagnancy in the industry growth due to macro factors and lower incremental investments by Government/private companies
Negative	Unable to recover from low in the stable economic environment, adverse government policies affecting the business fundamentals and global challenges (currency headwinds and unfavorable policies implemented by global industrial institutions) and any significant increase in commodity prices affecting profitability.
Right Quality	
Positive	Sector leader, Strong management bandwidth, Strong financial track-record, Healthy Balance sheet/cash flows, differentiated product/service portfolio and Good corporate governance.
Neutral	Macro slowdown affecting near term growth profile, Untoward events such as natural calamities resulting in near term uncertainty, Company specific events such as factory shutdown, lack of positive triggers/events in near term, raw material price movement turning unfavourable
Negative	Weakening growth trend led by led by external/internal factors, reshuffling of key management personal, questionable corporate governance, high commodity prices/weak realisation environment resulting in margin pressure and detoriating balance sheet
Right Valuation	
Positive	Strong earnings growth expectation and improving return ratios but valuations are trading at discount to industry leaders/historical average multiples, Expansion in valuation multiple due to expected outperformance amongst its peers and Industry up-cycle with conducive business environment.
Neutral	Trading at par to historical valuations and having limited scope of expansion in valuation multiples.
Negative	Trading at premium valuations but earnings outlook are weak; Emergence of roadblocks such as corporate governance issue, adverse government policies and bleak global macro environment etc warranting for lower than historical valuation multiple.

Source: Sharekhan Research

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